

# Food Service Revenue



## ISSUE

**How have school food service directors maintained food service revenue and achieved a balanced budget while implementing provisions resulting from the Healthy, Hunger-Free Kids Act of 2010 (HHFKA)?**

## BACKGROUND

HHFKA required the U.S. Department of Agriculture (USDA) to issue new science-based nutrition standards in order to provide students with healthy school meals. The standards are based on the recommendations of the Institute of Medicine<sup>1</sup> and are aligned with the 2010 Dietary Guidelines for Americans. The lunch standards specify weekly and daily requirements for low/non-fat fluid milk, fruits, vegetables, meat/meat alternates, and whole grain-rich items. The standards also set dietary specifications for calories, sodium, saturated fat, and *trans* fat. Similar requirements apply to school breakfasts.

To be eligible to receive Federal funding for school meal programs, State agencies are required to contribute matching funds equal to 30 percent of the Federal funds they received in 1980. Since the matching funds are set at 1980 levels, the required State contributions are small relative to the Federal reimbursements. Through payments to State agencies, USDA reimburses participating school food authorities (SFAs) for meals served to students. These reimbursements are not expected to cover all food service costs for all SFAs. However, the Federal subsidy for a free meal is expected to cover the average cost of producing reimbursable meals.<sup>2</sup> State agencies use the Federal funds to reimburse SFAs on a monthly or quarterly basis for meals served in the previous month or quarter.

The price that SFAs charge students for a paid reimbursable meal is set by the school district, and must meet requirements specified in the Paid Lunch Equity Provision in

HHFKA. The price SFAs charge for reduced-price meals is no more 30 cents for breakfast and 40 cents for lunch.

USDA provides schools with cash reimbursements for each meal served, as well as an allocation of commodity foods. SFAs can receive an extra 2 cents per lunch if at least 60 percent of lunches served in the second preceding school year were reimbursed at the free or reduced-price rates. SFAs that serve meals in accordance with the new HHFKA meal standards receive an additional 6-cent reimbursement for each reimbursable lunch. “Severe-need” schools, where at least 40 percent of students qualify for free or reduced-price meals, receive up to 23 cents in additional reimbursement for each free or reduced-price breakfast served.

SFAs primarily receive revenue from four sources: Federal meal reimbursements, student payments for federally reimbursable meals, sales of competitive foods, and State or local government contributions. School food service directors have discretion to use the revenue for any nonprofit school food program in the school or the district. This flexibility enables school food service directors to manage their programs and direct funds where needed.

*“I mean, you can do it for [the reimbursement amount]. You can do it – you just have to be creative in other areas.”*

The findings presented in this research brief include an overview of school food service revenue and budgeting considerations as school food service directors transitioned their programs to meet the requirements resulting from HHFKA, a summary of the strategies directors have used to maintain revenue and achieve a balanced budget while implementing the provisions in their school districts, and recommendations for technical assistance.

The information comes from semi-structured discussions conducted by telephone (focus group or individual interview) with nine school food service directors in April and May 2015. Although the participants are not statistically representative of all directors, the qualitative data collection technique was particularly suited to gaining in-depth understanding of how directors implemented the provi-

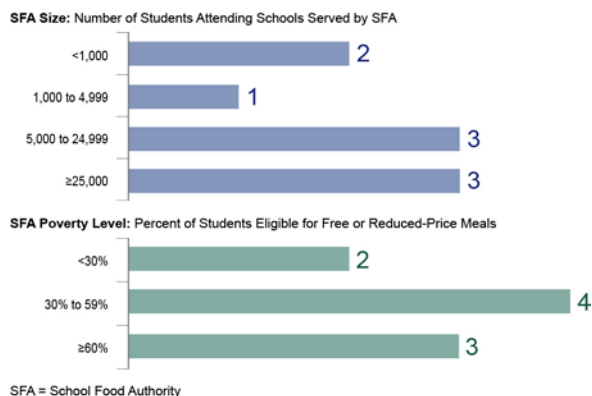
1. Renamed the National Academy of Medicine effective July 1, 2015.

2. USDA Food and Nutrition Service (2008). School Lunch and Breakfast Cost Study II: Summary of Findings. <http://www.fns.usda.gov/school-lunch-and-breakfast-cost-study-ii>.



sions resulting from HHFKA. See Figure 1 for a summary of the size and poverty level of the school districts represented by these school food service directors.<sup>3</sup>

Figure 1. Characteristics of School Districts Represented by Participating School Food Service Directors



## KEY FINDINGS

The school food service directors who participated in this study said that they used a variety of strategies to maintain food service revenue and a balanced budget while implementing the HHFKA-related meal requirements in their school districts. The directors cited three main challenges that they faced during the transition process: (1) improving reimbursable meal participation to maintain or increase revenues, (2) generating revenue from sources other than reimbursable meals, and (3) controlling food and non-food costs.

School food service directors described successful strategies that helped them address these challenges, including:

- Join a food-buying co-op, use USDA Foods, procure produce from the Department of Defense Fresh Fruit and Vegetable Program and the USDA Fresh Fruit and Vegetable Program, reduce food waste, and implement the Offer versus Serve option.
- Engage students in decision-making, serve student-approved items, use Smarter Lunchroom strategies, expand breakfast service, offer free meals to students eligible for reduced-price meals, and participate in the Community Eligibility Provision.
- Offer a variety of Smart Snacks, participate in other school-based USDA nutrition assistance programs, and secure grant funding.

3. This brief also includes strategies cited by school food service directors who participated in focus group discussions and telephone interviews for research briefs in this series that address other aspects of HHFKA implementation, including whole grain-rich foods, fruits and vegetables, sodium, Smart Snacks, plate waste, student participation, and childhood obesity.

## OVERVIEW OF THE TRANSITION PROCESS

### Revenue Prior to HHFKA

Overall, the school food service directors who participated in this study reported having healthy fund balances prior to HHFKA implementation. Participation rates and expenditures were in line and the SFAs were breaking even. One director reported having a positive fund balance and using the funds to purchase equipment.

All school food service directors said they had anticipated changes in school meals and had started offering whole grains and fresh fruits and vegetables in advance of HHFKA. Even though this resulted in increased food costs and lower revenues, these directors said they were breaking even because of their initial healthy fund balance.

### Transitioning to HHFKA Requirements

All school food service directors in this study began implementing changes to their meal programs in advance of the HHFKA provisions going into effect. All agreed that the head start helped them transition more smoothly by providing additional time to make the adjustments. Directors said they made extra efforts to monitor their expenditures and revenues.

*“My managers really stay on their inventory and they watch what they spend. I do the menu, so I know exactly what they will be preparing, and then my bookkeeper, she does the ordering so she watches what they order, and then they keep an eye on their inventory, and use foods as they need them and try not to over prepare, and then they just watch their expenses. I make sure I look at our reports every month.”*

Despite gearing up for HHFKA implementation, school food service directors noted declining revenue in the early stages of implementation. They attributed declines in fund balances to increased food costs and lost revenue stemming from lower participation, particularly among students paying full price. Most directors also noted declining revenue due to reduced sales of à la carte items and subsequent implementation of the Smart Snacks standards.

One school food service director reduced equipment spending and trimmed labor in order to maintain adequate funds. A few directors secured additional funding from other funding streams to offset the additional cost of healthier menu offerings. One director received support from the USDA Farm to School Grant Program as well as their local board of health, and another received a USDA grant to purchase equipment.



*“I searched for different types of grants that I could find, so I did some farm to school grants, and I also did some initiative, collaborating with our board of health. I got a grant with them for \$56,000 to help do my wellness policy. ... By partnering with some of my vendors ... I got them to help me with marketing and merchandising of food items, so that helped me on that side of my budget.”*

Some school food service directors said that the loss of revenue due to reduced sales of à la carte snacks and beverages was offset by increased meal participation that enabled them to maintain their revenue levels.

*“If you get your volume up, then those expenditures that you got to have, that you can’t eliminate, will fall into place.”*

Two school food service directors said they increased the meal price; one director raised the price by 10 cents, while another raised prices by 25 cents because the school board did not want to raise prices every year. One director said students complained about the price increase, recalling that a few students initially stopped buying school meals but later resumed eating school meals. One director said school staff and parents were unsure of the reason for the price increase. She discussed the changes at parent-teacher organization and school staff meetings, and said parents and staff supported the increase once they understood that the healthier school meals cost more to produce.

*“I did a little presentation that shows them [teachers and parents] how we come about the cost of the meal, and that was helpful to them, and they could see that there weren’t any reimbursements that were associated with what they were charged and then they understood it. They understood it better when we explained.”*

Some of the school food service directors also reported moving toward offering a universal breakfast program, serving breakfast in the classroom, participating in the Community Eligibility Provision, or implementing an after-school snack or supper program to arrive at a positive fund balance.

*“We went to a universal free breakfast, so our breakfast participation doubled in just over a year. So that revenue helped, and then we added dinner programs and started with 30 dinner programs. I’ve gone to 60 this year. The revenue from that has been fantastic. It’s going to help me build back my fund balance. We’re getting a lot of publicity from the dinner and no charge for breakfast. The participation has just been tremendous for us and that helped us build it up.”*

## STRATEGIES FOR MAINTAINING FOOD SERVICE REVENUE AND A BALANCED BUDGET

School food service directors in this study cited three main challenges in maintaining food service revenue and a balanced budget as they complied with the HHFKA-related meal requirements:

1. Improving reimbursable meal participation to maintain or increase revenues,
2. Generating revenue from sources other than reimbursable school meals, and
3. Controlling food and non-food costs.

Directors described successful strategies that helped them address these challenges, as summarized below.

### Challenge 1: Improving reimbursable meal participation to maintain or increase revenues.<sup>4</sup>

✓ **Engage students in decision making, and serve meals that include student-approved items.** Several school food service directors involved students in formal taste testing of new heat-and-eat products as well as scratch-cooked recipes. Some directors also offered samples as students passed through the lunch line and asked students for feedback. In addition, all directors recommended phasing in new products over time and offering choices to students. A few directors discussed the creative use of herbs and spices, as well as setting up condiment stations at the secondary grade level, as ways to improve meal participation.

✓ **Use Smarter Lunchroom strategies.** Several school food service directors noted that the layout and presentation of food was important for attracting students to the cafeteria. Directors said they had redesigned high school cafeterias to resemble the food courts at shopping malls. One director noticed that students liked ethnic

4. Refer to the student participation research brief in this series for detailed strategies.





foods so she installed what the SFA has branded “Creation Lines” in all of the high schools. These stations serve ethnic food, and the theme rotates each day, for example, from Italian to Asian to Mexican.

✓ **Expand breakfast service.** To extend the reach of the breakfast program and increase participation, several school food service directors started serving breakfast in the classroom. In one SFA, however, there was opposition from the school district to students eating in classrooms, but due to changes in bus schedules, students did not have sufficient time to go to the cafeteria to eat breakfast. The school food service director decided to take breakfast to the students. She purchased food carts and began providing breakfast to students as they got off the bus and entered the school building.

✓ **Offer free meals to students who purchase reduced-price meals.** One school food service director increased student participation by providing free meals to students who were eligible for reduced-price meals. Since reduced-price eligible students pay 30 cents for breakfast and 40 cents for lunch, the director noted that the increased number of reduced-price eligible students choosing to eat breakfast and lunch more than covered the cost of covering the difference between the reimbursements for free and reduced-price meals.<sup>5</sup>

✓ **If eligible, seek approval to operate under the Community Eligibility Provision (CEP).**<sup>6</sup> School food service directors operating under CEP noted that once they began doing so, reimbursable meal participation levels increased. One director implemented online applications, which provided parents another way to apply for the meal programs. With the increased number of eligible students, the director met the threshold and could apply for CEP and receive increased reimbursements.

*“You got to have the volume in order to support the expenditures that you have, and that’s in the situation where your expenditure is at a minimum.”*

5. For example, if 10 additional reduced-price eligible students participate as a result of receiving a free lunch, it costs the SFA \$4.00 to provide these students a free lunch. In return, the SFA receives \$25.80 in Federal reimbursements at the reduced-price rate for the 10 additional students. This is a net increase in revenue of \$21.80.

6. Beginning in school year 2014-2015, a school district may participate in CEP if one or more schools meet the 40 percent free or reduced-price eligibility threshold. CEP eliminates the need for individual applications in high-need communities, and qualifies an entire school or schools for free meals. SFAs are reimbursed based on the number of students certified for free meals through means other than individual applications (e.g., direct certification; enrollment in Head Start or Even Start programs; or foster, homeless, migrant, or runaway children).

✓ **Cater to school-wide events.** Two school food service directors said they prepared meals for various meetings across the district, such as parent-teacher organization meetings, staff meetings, and other district-wide meetings.

*“These chefs are full time and thus, we can have other events/functions in the school and we cater to these. This helps to make sure we can offset some of our product costs and balance the budget.”*

**Challenge 2:** Generating revenue from sources other than reimbursable school meals.

✓ **Offer a variety of Smart Snacks.**<sup>7</sup> Some school food service directors said they were able to maintain or improve food service revenue through increased à la carte sales. Several directors installed vending machines with compliant food items and healthy drinks in the high schools. Several directors expanded the flavored water selection and noted increased sales. One director installed vending machines with compliant food items and healthy drinks in a high school with 1,500 students. The director said the machines, which cost \$7,000, paid for themselves within 1 year.

*“So a lot of my revenue comes from [the] à la carte program. That really does support the program.”*

✓ **Participate in other school-based USDA nutrition assistance programs.** A few school food service directors said they increased revenue by implementing other USDA programs, such as the Summer Food Service Program, the Afterschool Snack Program, and the Afterschool Supper Program.

One school food service director noted that students who participated in after-school athletics and other programs were at school several hours beyond the end of the school day, and many hours after lunch. By expanding the Afterschool Snack Program to additional schools and implementing supper at other schools, she was able to increase overall participation by 400 students. Another school food service director implemented supper in three schools and reported that it brought in \$10,000 in revenue.

7. Refer to the Smart Snacks research brief in this series for specific implementation strategies.



*“I was doing a snack program, but the kids were staying until 4:30 or 5:00 o’clock. Some groups were staying until 6:00 or later, and they were all hungry.”*

✓ **Gradually increase meal and à la carte prices.** Several school food service directors developed multiyear plans for increasing meal prices and presented these in advance to school administrators for approval. Directors said that students and parents seemed more receptive to small price increases, typically in the range of 5 to 10 cents per year. In addition, by having multiyear plans, directors felt it eliminated the need to go before the board each year to justify price increases. In one district, the Paid Lunch Equity Provision provided the justification for the increase.

Several school food service directors said they maintained revenue by increasing the price of à la carte items.

✓ **Secure grant funding.** Some school food service directors secured USDA Farm to School grants. One director received a farm to school grant to purchase equipment, which provided another source of revenue. Another director received a grant from their local board of health to cover development of the wellness policy. She also collaborated with some vendors on marketing food items.

### Challenge 3: Controlling food and non-food costs.

✓ **Join a food-buying co-op.** Several school food service directors said they were able to purchase compliant products and control their food costs by joining a food-buying co-op. As multiple districts ordered products through the co-op, they were able to change suppliers and receive volume discounts, which helped to lower food costs.

Some school food service directors said they relied on the co-op for most of their purchases; a few directors purchased only a few items that were not available, or available at a higher price, through their usual vendor. Some directors noted that being a part of the co-op made it feasible to obtain multiple bids, and a few directors said it allowed them to negotiate lower prices with their own vendors. Some directors who had access to a warehouse storage facility said they purchased bulk items to reduce food costs.

✓ **Use USDA Foods.** School food service directors said they used USDA Foods directly in preparing school meals, or they diverted the commodities in order to reduce the cost of purchasing specific products from vendors. One director said he used USDA Foods to obtain the more-expensive food items on their menus; another director said she diverted their commodities and sent them to a vendor,

and thereby could obtain brand-name products at a lower cost.

*“[USDA Foods] are very helpful, because you can get name-brand products at a lower cost with government money.”*

✓ **Participate in the Department of Defense Fresh Fruit and Vegetable Program (DoD Fresh) and the USDA Fresh Fruit and Vegetable Program (FFVP).** Several school food service directors talked about combining the DoD Fresh Program with the USDA FFVP to obtain the fresh produce they needed. Directors said that DoD Fresh was particularly helpful for obtaining produce for salad bars.

*“The cost of producing the salads was pretty high, but we could use that DoD money to purchase the majority of the food to go on salad bar.”*

✓ **Review labor costs and keep kitchen waste down.** School food service directors said they monitored labor costs and tried to avoid having too many staff members, and to avoid introducing plating options that were too labor intensive. One director noted that school nutrition staff previously prepared individual cups of peaches and then put a cap on them, which took up a lot of time. By placing the sliced peaches right on the tray, they could save labor costs.

*“They used to portion out everything ahead of time, and like I said, we try to avoid that, so we reduce single-use items.”*

*“The first thing I would look at is your labor, because it seems like self-operated kitchens have the same amount of labor of the past where they were 100% scratch cooking, as they do now with ready-to-use items.”*

**Use the Offer versus Serve option so students are plating what they intend to eat.** School food service directors said they used Offer versus Serve to reduce waste and cut expenses. In conjunction with Offer versus Serve, directors also moved toward starting or increasing batch cooking. Directors said that combining these two strate-



gies led to preparation of food based on student selection, thereby reducing waste and food costs.

## TECHNICAL ASSISTANCE RECOMMENDATIONS

School food service directors in this study have used a variety of strategies to maintain food service revenue and a balanced budget while implementing the HHFKA meal requirements in their school districts. Their experiences and approaches provide relevant insights that can be applied in developing training and technical assistance materials to assist other directors. Such materials should focus on the following three areas:

1. **Planning and implementing meal price increase:** Provide resources for analyzing food service costs, implementing cost-saving measures, and developing multiyear strategic plans.

2. **Marketing school meals to students:** Recommend strategies for increasing student participation and sales of à la carte items for various school populations.
3. **Participating in other USDA nutrition assistance programs:** Recommend strategies for implementing other USDA programs that meet the needs of students and complement existing programs.

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*This research brief was produced by Westat under contract with the USDA Food and Nutrition Service.*

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